CRESC Working Paper Series

Working Paper No. 23

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September 2006

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The support of the Economic and Social Research Council (ESRC) is gratefully acknowledged.

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Abstract

This paper outlines a radical explanation of management pay based on claims and positions, which breaks with the functionalist assumptions of academic agency theory focused on actors and functions. The first part of the paper contrasts the discursive construction of the post-1980s shareholder with the pre-1940s rentier, observing that the critique of the rentier developed by Keynes and others raises questions about the position and reward that are relevant to current managers of giant public companies. The second part of the paper situates the pay of giant firm executives, who have received large real increases in their rewards over 20 years, in a broader context that includes those who derive high incomes from positions around (not inside) the giant firm. The aim of the paper is to contribute to a new debate about how activity and position can generate high income and wealth and to open out a new agenda for understanding business power and influence in present day capitalism.

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Introduction

The pay of top executives in giant UK and US firms has been a matter public concern since the early 1990s; the recent UK concern about 'rewards for failure' reprises themes from an earlier panic about 'fat cats' because the problem in both cases was constructed as one about the absence of any relation between management pay and performance, constructed as adding value for shareholders. The public concern echoes academic work since the early 1980s, which has generally failed to find any such empirical relation through mainstream finance studies in an agency framework about whether and how managers do act for shareholders and are paid to do so. By the 2000s, mainstream academics such as Bebchuk were presenting supposedly new and different explanations about how boards were failing to restrain managers but nevertheless maintaining the functionalist assumption that managers should act for shareholders. This paper makes the argument for a more radical alternative explanation of management pay which breaks with the functionalist assumptions of academic agency theory and popular discussion at the same time as it advances an alternative explanation that relates pay to position and brings back arguments from the 1920s.

The nature of this problem shift can be understood by briefly counterposing the orthodox actor/function/site problem definition of agency and our alternative claims/position/process problem definition. Within the agency problem definition, originally formulated in the 1970s and 1980s by authors like Jensen (1989) and Fama (1980), the *actors* are the shareholders as principals and the firm managers as agents; the *function* of shareholders is to monitor and of firm managers to create value for shareholders through autonomous action; and the *site* of their activity is the giant firm as a nexus of contracts where the problem of pay is essentially one of optimal contracting. The subsequent ubiquity of agency assumptions illustrates the power of simple ideas because agency offers a kind of cartoon where sketch and caricature produce accessible simplifications with a clear heuristic for policy in the form of corporate governance wherein the board enforces the appropriate relation between pay and performance. The argument against this problematisation is twofold: first, the orthodoxy narrows the field of the visible because agency encourages an exclusive preoccupation with top managers inside giant firms (and neglects the intermediaries like investment bankers outside the firm); second, the orthodoxy is historically ignorant because it does not recognize that the shareholders whose virtuous claim rests on function were previously in the inter war period constructed as rentiers whose parasitic claims rested on position.

Our alternative explanation returns to the older style of positional explanation which was used to criticize the rentier in the 1920s and 1930s and uses it to explain the high pay of management inside giant firms and of intermediaries outside the firms in the 2000s. Within the alternative claims/positions/process problem definition, *claims* on income can come from position. This was the basis of the radical critiques of the rentier before 1940 and, in our alternative explanation, position allows post-1980 managers to skim value and draw high pay. *Positions* are discursively constructed and reconstructed within a field of partial visibility which changes over time. Thus, the investor now known as shareholder was in a previous era identified as the rentier; or again, the high paid managers employed by giant firms are now inside the field of the visible while high paid intermediaries like investment bankers and accountants are largely invisible. *Process* matters because present day capitalism, which combines neo-liberalism with responsibility, brings together managers inside and outside the firm and creates high income opportunities for the intermediaries who are the cadres of compliance and restructuring. The advantages of this approach are two fold: the alternative broadens the field of the visible to include all those with business derived high incomes inside and around the giant firm in a world where the number of high paid intermediaries like bankers greatly outnumber executive directors; second, the alternative problematizes management work inside and outside the firm in an economy of restructuring and thereby makes a connection with the current, historically specific character of capitalism.

This is therefore a paper both about the changing historical and theoretical frames within which management pay and investor claims are conceived and about the empirics and evidence about who gets high incomes in and around giant firms. The paper is organized in two sections. The first section, s*hareholders or rentiers* starts from the observation that, whereas shareholders are now socially blessed because efficiency supposedly results from the enforcement of their ownership rights; an earlier generation of investors were damned as parasitic rentiers whose claims should be resisted. This section draws out the historical contrast between the discursive construction of the post-1980 shareholder and the pre-1940 rentier and observes that the critique of the rentier raises issue about position and reward which are relevant to management in our time. The second section, *high pay and for what?,* starts by focusing on the pay of giant firm CEOs and directors who have obtained large real pay increases over the past 20 years. But, from a broader perspective, if we consider business derived high incomes, a small number of high income managers inside the firms are outnumbered by the many high paid intermediaries like accountants and investment bankers outside the firms. This section also challenges the agency assumption that the work of giant firm management as selecting profitable projects to create shareholder value; from our more sociological and cultural perspective, business high earners are virtual workers whose position inside and outside the firm creates opportunities for value skimming.

Our argument is that the agency problematisation is part of a recently invented romance of management pay which creates chivalric heroes and promotes picturesque falsehood. The exploration of historical specificities and socio cultural complications is intellectually interesting because, for example, Berle and Means cannot legitimately be enrolled as precursors of agency. But our paper is also intended to contribute to a new kind of political debate about how activity and position generate high income and wealth in present day capitalism.

Shareholders or rentiers: an historical perspective

Political economists increasingly recognize that financialisation did not start in the 1990s with new demands for shareholder value., As Krippner (2005), for example, has noted in her analysis of the growing importance of financial income for US non-financial corporations, some of the important measurable changes go back to the 1970s. Discursively, financialisation goes back even further to the 1920s or before and this section aims to bring this discursive history into focus. The discussion of the 1980s and 1990s about serving shareholder interests was immediately stimulated by leveraged buy outs (LBOs) particularly in the USA and by demands for shareholder value in the Anglo Saxon economies. But this discussion resumes and varies an earlier discussion of the 1920s and 1930s about resisting rentier claims which was stimulated by the inequity and instability of inter war capitalism. The crucial difference is that agency theory in the 1990s envisages a beneficial process of financialisation around the enforcement of the shareholder's rights which will resolve the agency problem; whereas, radical critics of the 1920s and 1930s wanted to limit the rentier's parasitic claims which would otherwise have damaging economic effects. From this perspective, the shareholder is a re-invention of recent date. There have of course been investors holding ordinary shares since the first railway companies and the mid-nineteenth century promotion of the limited liability company. But the social construction of the investor changes over time as the left's bad rentier of the 1920s and 1930s is reinvented as the right's good shareholder for the 1990s and 2000s.

Our starting point is the dominant narrative of agency post-1980, which represents a kind of ex post, economic gloss on the so-called separation of ownership and control in the giant firm some decades after the managerial revolution. The key assumptions are: i) owners/shareholders bear risk and have a function of monitoring managers (which is not always exercised); ii) enforcing ownership rights creates value for shareholders (as residual claimants) and incidentally delivers economic efficiency benefits through better use of resources; iii) managers have a function of value creation through investment project selection and avoidance of waste inside the firm as site; and iv) incentive pay can align management effort with shareholder interest; so high pay is not a problem *per se.* Corporate governance then figures as the corollary control technology from the 1990s to encourage or enforce pursuit of the shareholder interest and high incomes for management are conditionally justified when management creates value.

The theoretical frame is supplied by post-1970 economics about the firm as a nexus of contracts (Jensen and Meckling 1976). From the mid 1980s onwards, US finance professors like Eugene Fama explicitly extended the argument to cover the giant firm with separation of ownership and control.

> the striking insight of Alchian and Demsetz (1972) and Jensen and Meckling (1976) is in viewing the firm as a set of contracts among factors of production…the main thesis of this paper is that separation of security ownership and (management) control can be explained as an efficient form of economic organization …
>
> (Fama 1980)

On this economic terrain, all the 'factors' entering into production (including capital and management) are entitled to their reward by virtue of their essential contribution to production. The problem is then to secure optimal contracting arrangements between the shareholder principals and their management agents and this sets up management pay on the terrain of efficiency, thereby evicting morality and politics.

The empirical observation that pay apparently does not relate to performance (see, for instance, (Tosi *et al.* 2000), as well as the US governance scandals and corporate failures after 2001, have empowered critics of agency. But the agency problematisation is now so powerful that mainstream critics of agency continue to buy into the problematic as described by the five key assumptions above. Consider Bebchuk and Fried's (2004) influential 'managerial power' explanation where rents are extracted by managers who have suborned the boards of directors whose role should be to safeguard the shareholder interest. Bebchuk and Fried are doing no more than suggesting that defective governance explains the disappointing results of management incentives (without questioning the claims of the shareholder or the conditional justification of high incomes). Much the same set of assumptions are now implicit in lay discussion and successive media panics about management pay, as with UK criticism of utilities 'fat cats' in the mid 1990s (which gave rise to the Greenbury Report 1995) or criticism of CEO 'rewards for failure' in the 2000s (DTI 2003).

But a quite different set of assumptions are incorporated in the dominant narrative of the rentier pre-1940, which represents a left and centrist political gloss on capitalism's inequality and instability, in the middle of a managerial revolution which was explicitly recognized in the classic texts. This observation is in itself interesting because it shows there is no simple one-on-one correspondence between recognising the managerial revolution and buying into agency. Marxists, liberals and social democrats set the separation of ownership and control on a different terrain in the 1920s and 1930s when they made three quite different key assumptions: i) rentiers/ coupon clippers are parasitic consumers with no function in production; ii) the rentier makes contestable and illegitimate claims for income without service and/or represents property without function; and iii) management salaries are assumed and demonstrated to be modest so that management is represented as Tawney's 'intellectual proletariat'. The corollary policies are the liberal collectivist plans of the 1930s and beyond for capping the claims of the rentier as the basis for stable prosperity in a reformed capitalism.

The idea of a parasitic rentier stratum was classically developed by Nikolai Bukharin (1927) in the *Theory of the Leisure Class*. Here, the inter war period was identified as the age of the rentier because increased circulation of 'financial paper' had encouraged an increasingly numerous rentier stratum. For the Marxist Bukharin, this stratum represented parasitic consumption:

> It participates directly neither in the activities of production nor in trade…. Consumption is the basis of the entire life of the rentiers …concerned only with riding mounts, with expensive rugs , fragrant cigars and the wines of Tokay'
>
> (Bukharin 1927, p.9).

From our point of view, the British and US radical liberals and social democrats such as R.H. Tawney, J.A. Hobson, J.M. Keynes and A. Berle are more interesting because they were all one way or another concerned to reform or patch up inter war capitalism. Their underlying theoretical problematic was not economic but political, because inter war intellectuals supposed that we had, at least since Locke and the revolutions of 1776 and 1789, been engaged in a theoretical debate and a political contest to justify the acquisition of wealth and the enjoyment of property. For radical liberals and social democrats, the issue was not property but the distinction between legitimate and illegitimate forms of property, neatly encapsulated in Hobson's (1937) distinction between 'property' and 'improperty'. Their response was a cautious conditionality about property rights represented by Tawney's (1921) condemnation of illegitimate forms of property such as mineral rights and ground rents; or again by the arguments of Keynes or Berle in the 1930s on how the future of capitalism depended on restricting the claims of the rentiers.

The seminal text here is Tawney's (1921) *Acquisitive Society*, whose problem definitions and solutions were subsequently borrowed by Keynes and Berle. Tawney provides a critique of those forms of property that yield income not related to the needs for the owner to perform any (productive) service or function.

> In modern industrial societies the greater mass of property consists… of rights of various kinds such as royalties, ground rents, and above all, of course shares in industrial undertakings, which yield an income irrespective of any personal service rendered by their owners
>
> (Tawney 1921, p.66)

The wholly illegitimate forms clearly include monopoly profits, ground rents and mineral royalties (p.67) which are the result of position and represent a 'private tax'.

Tawney disapproved of rentiers and their incomes because, although he recognized the legitimacy of pure interest as the necessary price of capital (pp.67-8 and p.123), the rentier sought an extra profit and represented passive property. After 'the separation of ownership and management' (p.202) the rentier held coupons not as 'a means of work but as an instrument for the acquisition of gain' (pp.65-6). Tawney's alternative vision was of a society organized on the basis of functions with industry and commerce governed by trade boards. His interim reformist measure was to reduce the privileges of private ownership of industrial capital by converting the 'ordinary shareholder' into a debenture holder entitled to a fixed rate of interest (p.123).

Tawney's policy fix was taken up after the 1929 crash and the ensuing slump by liberal collectivist New Dealers and Keynesians who wanted to fix up 1930s capitalism and find what Macmillan termed 'the middle way' between capitalism and socialism, which involved delimiting the sphere of the market and distinguishing forms of property. Consider, for example what J.K. Galbraith termed the 'two most important books of the 1930s': Berle and Means' (1932) *The Modern Corporation* and Keynes' (1936) *General Theory*. Both of these in different ways argued that the reformist future of capitalism rested on limiting the claims of the rentier.

Berle and Means (1932) *The Modern Corporation and Private Property* quite explicitly did *not* recommend either the subordination of the corporation to the shareholder interest or the incentivisation of managers to act in the shareholder interest. Instead, they very clearly recommended the assertion of a community interest through New Deal policies at the expense of both the rentier's 'passive property' income and the management control prerogative:

> Neither the claims of ownership nor those of control can stand against the paramount interests of the community… Should the corporate leaders, for example, set forth a program comprising fair wages, security to employees, reasonable service to their public, and stabilization of business, all of which would divert a portion of profits from the owners of passive property…the interests of private property owners would have to give way… (As for) 'control' of the great corporations that should develop into a purely neutral technocracy, balancing a variety of claims by various groups in the community
>
> (Berle and Means 1932, p.312)

It is in this context that we can understand Keynes' vision in chapter 24 of the *General Theory* of the 'euthanasia of the rentier, of the functionless investor' (1936, p.376) because Keynes is engaged in providing a technical economic justification for the capping of rentier claims, which Tawney had politically recommended. As Keynes argued, the technical problem was that, when the 'marginal propensity to consume' was steadily less than one, the volume of investment did not compensate for under-consumption and unemployment resulted. The solution was not to offer the 'rentier' more but to engineer a reduction in the 'marginal efficiency of capital' resulting in interest rates so low that the 'pure rate of interest' (ie without a premium for risk) would be zero. This would both boost investment and thus aggregate demand and ensure 'a gradual disappearance of a rate of return on accumulated wealth' (Keynes 1936, pp220-1).

The visionary Keynes (1936, p.376) himself identified 'the rentier aspect of capitalism as a transitional phase'. Certainly inter war critics presupposed some kind of rentier stratum which has since become much less important in several ways. Saez (2004) shows the share of the wealthiest 1 per cent declined between 1920 to 1980 from 60 per cent in the UK and around 40% in the USA to around 20 per cent in both countries. If we consider high income earners, Saez (2004) also shows that (rentier) income from capital accounts for a declining share of the total income of high income groups: while capital income contributed around half of total income in the 1920s and 1930s, by the 1980s this was less than a fifth. One of the reasons for the decline in the significance of rentier income is the shift in ownership of equity from individuals to institutions (which creates what Epstein and Jayadev (2005) characterize as a new kind of 'rentier'). In effect, after 1950 the idea of a narrow upper middle class rentier stratum was killed off by the rise of mass investment in the UK and the USA, particularly through funded occupational pensions. There are important and persisting differences between the USA and the UK but there is also a basic similarity in that, by the mid-1990s, in both the UK and USA households in the top half of the income distribution generally had significant stock market investments (Froud *et al.*, 2002). The implication that 'rentiers are us' thus limits the scope for indignation.

Why then return to the radical inter-war critique of the rentier? Because in the rest of this article we believe we can understand more about present day capitalism by asking how capitalism now is like the early twentieth century rentier critique than by lamenting how capitalism now is unlike agency theory. Owners of mineral rights may be irrelevant but the underlying issue about how reward relates to position and activity does not go away and will recur in a different context.

Who gets high pay (and for doing what) in business?

The previous section established that agency was associated with a historical shift from earlier positional explanations of reward to new functional explanations as the rentier became shareholder. This second section considers the empirical evidence on who gets business related high pay and introduces argument about the basis for such rewards. Because, our difference with the romance of agency is not simply about the basis for management pay, this section also includes a brief discussion of shareholder rewards. Overall, this section aims to take a broader view and argues the case for bringing position back in both as a basis for understanding shareholder and management rewards. On management pay, this section considers in turn the two interrelated issues of who gets high business pay and for what kind of work. An overview suggests that agency has limited the field of the visible by encouraging a narrow preoccupation with the pay of top managers (CEOs and executive directors) inside giant companies But, as this section argues, mainly from UK evidence, if we consider those with business-derived high incomes, the number of giant firm managers is small and they are greatly outnumbered by a much larger group of high income business 'intermediaries' in activities like accounting, law, consultancy and investment banking which service giant firms. We reject the agency assumption that the work done by executives inside the firm is different and more directly connected to the creation of value. Instead, we argue for a broad sociological and anthropological view of the virtual work of management which, in an economy of neo-liberalism with responsibility, involves intermediary cadres of compliance and restructuring outside the giant firm as much as managers inside the firm. In this context, our argument is that high pay for managers inside the giant firms, as for intermediaries outside giant firms, does not reflect the intrinsic difficulty or unique contribution of the work but rather the advantages of position.

The first issue is whether the focus should be on management pay or business-derived high incomes? Public and academic discussion of business-related high incomes has focused mainly on executives in public companies partly because the agency frame has been reinforced by increasing levels of disclosure through the 1990s, in the UK case as a direct result of the Cadbury (1992), Greenbury (1995) and Hampel (1998) reports on corporate governance. Annual surveys of executive pay are now published in *Business Week*, *Fortune,* the *Guardian* and elsewhere. For instance, in the summer of 2005, the *Guardian* (4 August 2005) led with the results of its annual survey of FTSE 100 salaries, which shows they rose (again) by 16% in 2004-05.

US top managers have generally earned much more than their European counterparts and in the later 1990s this difference was sustained in the USA by a much greater reliance on stock options (Erturk *et al.* 2005). But, as table 1 shows, the upward trajectories of real pay are similar in both countries since 1980, with double digit real pay increases each year for top managers. These pay increases have dramatically increased top salaries and thereby increased the differential between top management salaries and the wages of ordinary workers: in constant 2002 prices UK FTSE 100 survivor company CEO salaries increased from £208k in 1978-9 to £1.364 million in 2002-3, which increased the differential from 9 times ordinary worker pay in 1978-9 to 54 times in 2002-3. The UK top to bottom differential of 2002-3 was around the level from which the USA began in 1980 before huge increases in S&P 500 CEO salaries to $7.4 million in 2002, when the top to bottom differential was 281:1.

Table 1. A comparison of CEO and worker pay in the USA and UK (All values are real and in 2002 prices)

	Chief Executive Officer pay	**Employee pay**	**Ratio between Chief Executive and employee pay**
US Business Week 350 companies			
	$	**$**	**Ratio**
1980	1,392,857	27,946	50
1990	2,814,084	25,599	109
2000	14,010,695	26,705	525
2002	7,400,000	26,354	281
UK FTSE 100 Constituents			
	£	**£**	**Ratio**
2002	1,130,000	26,737	42
UK FTSE 100 Survivors			
1978/79	207,643	23,093	9
2002/03	1,363,718	25,474	54

Sources: For the US data: Sklar et al. (2002) –based on Business Week data, and Bureau of Labor Statistics. For the UK data: company annual report and accounts and Monks Partnership, 2003, based on company accounts for 2002-03.

Notes: For the FTSE100, constituents are those 100 companies that make up the index in the year in question (the largest 100 firms by market capitalization). Survivors are those companies that have been in the FTSE100 continuously since it was introduced in 1984.
The 1978/9 data refers to the highest paid director rather than the chief executive.
US compensation includes salary, bonus, cash options and other benefits. UK compensation includes salary plus bonus but excludes the value of options. The Monks data series is produced for historic comparison purposes and information on the value of options has only recently become available for UK companies.

The high pay of giant company CEOs attracts attention and criticism, so it is important to note that that not all top managers earn this kind of money, Academic surveys in the USA and UK have generally found a strong empirical relation between CEO pay and company size (see for instance, surveys in Tosi *et al.* 2000, Barkema and Gomez-Mejia 1998) so that, as table 2 shows, top managers in medium sized or small companies earn much less. The position is complicated in the USA by the fact that the base line for giant company CEO pay is set so high, but in the UK it is certainly possible to have major responsibilities in a medium sized company and receive moderate pay: in 2002 the average for UK CEOs in companies with turnover of £50 to £500 million is just £129,000 or less than one tenth of what the average FTSE 100 CEO is earning in a giant company which would usually have turnover of more than £500 million.

Table 2. Levels and composition of CEO pay in the USA and UK

US: S&P companies, 2001-02				
	Total compensation	**Of which**		
		base salary	**(all) bonuses**	**cashed options**
	$mill.	%	%	%
S&P500	7.990	11.5	17.3	71.2
S&P 400 (Midcap)	3.493	17.6	20.7	61.7
S&P 600 (Smallcap)	1.809	26.1	19.0	54.9
UK: listed companies, 2001-02				
	Total Pay	**Of which**		
	£	**basic pay %**	**Bonus %**	
Small company (turnover up to £5m)	62,250	93.2	6.8	
Medium company (turnover £5m to £50m)	94,997	86.3	13.7	
Large Company (turnover £50m to £500m)	129,000	89.1	10.9	
FTSE 100 (turnover range £403m to £119bn)	1,249,000	74.5	25.5	

Sources: For the US data: Execucomp. For the UK data: Croner Reward (small, medium and large companies) and Monks Partnership (FTSE 100 companies). Around 10 of the smaller FTSE 100 companies are included in the Croner Reward ‘Large Company’ category so that this ‘Large Company’ group is mainly non-FTSE 100 firms.

Note: the UK data provided by Croner Reward and Monks Partnership does not include the value of stock options.

Furthermore, the group of high paid top managers in FTSE 100 companies includes CEOs and other executive directors but not the non executive directors (NEDs) who, in response to the requirements of good governance, now account for nearly two thirds of UK FTSE 100 boards. According to a *Financial Times* survey (5th September 2005), 62% of all FTSE 100 directors are now NEDs, which leaves room for around five highly paid executives on the average FTSE 100 Board. In 2005, the group of top managers in giant firms (CEOs and executive directors) earning more than £500k a year therefore included no more than about 500 individuals. Thus, *in terms of the numbers* concerned, this group of high paid CEOs and executive directors is very small and the preoccupation with this group stems from its importance within the agency frame where managers as key decision makers and executives should be accountable to shareholders and other groups.

But the 500 giant company executives are an insignificant fraction of all those earning high incomes in the UK and, more interestingly, the executives account for a small minority of those earning business derived high incomes in and around giant companies. The argument here starts by considering aggregate data on income in the UK and USA and begins by identifying the numbers of individuals on high incomes. In the UK, we can set the threshold of (private sector) high income as somewhere around £200,000.This excludes everybody in public employment including the prime minister or the head of the civil service who gets no more than £170k (Erturk *et al*. 2005), while local government chief executives’ pay averaged £112,000 in 2002-03 (Society Guardian 2003). According to Inland Revenue returns, in 2003-

4 just under 100,000 UK taxpayers returned incomes of more than £200k with the average income of the 95,000 taxpayers in this group amounting to some £437,895. The comparable threshold for high income is harder to determine in the USA and depends on internal relativities and the external exchange rate. But, if we set the US threshold as $500,000, then the number of taxpayers who returned incomes at or above this level in 2003-04 was nearly two million (1,996,787) (table3). On this measure, the USA has five times the population and at least 20 times the number of high income earners. And this is reflected in their much greater share of all incomes: the 100,000 in the UK high income group account for 0.3% of taxpayers and claim 5.6% of total income earned; whereas the two million in the US high income group accounts for 2.2% of all taxpayers and 10% of total income earned.

Table 3. Income thresholds and taxpayers in the UK and USA

(a) The UK (2003-04)

Lower limit range £	**Total number of individual taxpayers**	**Total (pre-tax) income in range £ million**	**Average (pre-tax) income in range £**	**% of total number of taxpayers**	**% of total income earned**
4,615	498,000	2,390	4,799	1.7	0.4
5,000	534,000	2,800	5,243	1.9	0.4
5,500	555,000	3,190	5,748	1.9	0.5
6,000	1,260,000	8,220	6,524	4.4	1.3
7,000	1,450,000	10,900	7,517	5.1	1.7
8,000	2,660,000	23,900	8,985	9.3	3.8
10,000	2,570,000	28,300	11,012	9.0	4.5
12,000	3,610,000	48,600	13,463	12.7	7.8
15,000	4,810,000	83,500	17,360	16.9	13.4
20,000	5,710,000	139,400	24,413	20.1	22.3
30,000	3,360,000	124,500	37,054	11.8	19.9
50,000	1,110,000	73,600	66,306	3.9	11.8
100,000	256,000	34,000	132,813	0.9	5.4
200,000	95,000	41,600	437,895	0.3	6.7
All ranges	28,478,000	624,900	21,943	100.0	100.0

(b) The USA (2003-04)

Lower limit range $	Total number of individual taxpayers	Total (pre-tax) income in range $ million	Average (pre-tax income in range) $	% of total number of taxpayers %	% of total income earned %
10,000	4,952,164	34,490	6,965	5.6	0.6
20,000	12,347,028	186,019	15,066	13.9	3.2
30,000	12,187,318	304,724	25,003	13.7	5.3
50,000	21,524,447	846,122	39,310	24.2	14.7
100,000	26,511,044	1,861,718	70,224	29.8	32.4
200,000	8,861,764	1,167,989	131,801	10.0	20.3
500,000	1,996,787	575,673	288,300	2.2	10.0
1,000,000	355,750	240,944	677,284	0.4	4.2
Above $1m	181,080	533,985	2,948,891	0.2	9.3
All ranges	88,917,382	5,751,664	64,685	100.0	100.0

Sources: National Statistics (UK), Survey of Personal Incomes 2002-03; IRS (USA) based on individuals returning taxable returns

Table 3 presents a static snap shot and it is important to note that the historical moving picture shows that the high income groups have clearly benefited from the changes of the 1980s and 1990s, especially the decline in average and marginal rates of taxation on those with high incomes. As Piketty and Saez (2001) show from IRS data, the top 1% of income earners lost share from 1920-1980 but then regained all their losses to double the share from 10-20% of all incomes from 1980-2000. The US gains are confined to the top income groups because, according to Saez (2004), the share of the top 10 or 20% shows no such trend. Atkinson (2003) shows that the position is broadly similar in the UK, where 80 years of loss of share of total income are then balanced by 20 years of sharp recovery in the share of high income earners. By the early 2000s, the top 1 per cent by income claimed about 13 per cent of overall income. After the gains of the past 25 years, the percentage of earners with high incomes remains relatively small but the number of individuals in this group of winners is large in the UK and much larger in the USA.

The whole group of those with high incomes is of course bewilderingly diverse because, in the UK, it includes most Premier League footballers, some owners of small and medium enterprises, star broadcasters and best selling authors. The sub group of those on business derived high salaries includes giant company executives as well as non executives in intermediary roles who provide banking, accounting and other services to giant companies. It is this latter group of intermediaries which is important in developing an alternative claims/positions/process definition of business-related high pay. Interestingly, in marked contrast to executives and directors of public companies, business intermediaries outside the giant firms are nearly invisible, even though the fragments of available evidence suggest there are many more intermediaries than top managers.

For the high earning intermediaries in business services, the main customers are giant firms and government. The group of individuals benefiting from such relations includes senior investment bankers, city analysts and traders, accounting and law partners, consultants and those working in advertising and PR. By our guesstimate, these groups in total in the UK probably account for 10-20,000 individuals earning more than £350k a year; intermediary salaries are increasing fast so that the number was probably around 10,000 in 2003-4 and will most likely reach 20,000 by 2006-7. It is frustrating to find that there is very little publicly available systematic information on many of the important sub groups of intermediaries. For example, no source gives us the total number of those employed as senior investment bankers; while, in many cases such as PR or advertising, the salaries of senior employees cannot be calculated from the accounts of their employers. But the subgroup of 10,000 or more intermediaries has two major constituents: senior City bankers and partners in the major accounting and law firms.

The absence of hard information on highly paid bankers and other City intermediaries is very limited. All we can say is that journalists working from head hunter sources guesstimate the number of City high earners as around 3,000 in their annual stories about bonuses: thus, in a good year like 2005, the *Evening Standard* claimed that 'between 2,500 and 3,000 senior managers and traders in big investments banks and hedge funds could get at least £1 m each' in bonuses (22 September 2005), In a few case, we can at least confirm high pay levels from the public accounts of specialist investment banks whose profits come from advice on corporate M and A, participation in private equity and own account stock trading. Consider, for example, Goldman Sachs, a specialist investment bank without the retail operations that complicate analysis of competitors like Merrill Lynch or JP Morgan Chase. The Goldman Sachs accounts disclose 22,425 employees worldwide at the 2005 year end with total compensation and benefits for the 2005 financial year of $11,688 million (Goldman Sachs annual report and accounts 2005). In terms of a simple average, this gives a compensation figure of just over $500,000 per head. Senior employees earn much more than that because a fair number of employees are personal assistants, IT technicians and such like. Thus, before its 1999 flotation on the NYSE, Goldman Sachs was a partnership and the inner cadre of high earners were the partners who numbered no more than 221 or 1.7% of the total workforce of around 13,000 employees in 1999 (*Financial Times* 17 March 1999). By 2005, the Goldman Sachs workforce has increased to 22,425 and, if the inner cadre accounts for a similar percentage, the principals number no more than about 400 in 2005. On that basis, it is easy to see how the firm can afford bonuses, such as the £10 million reportedly paid to Michael Sherwood, co-chair of Goldman Sachs International (*Sunday Times* 23 April 2006) from a total $11.7 billion salary pot.

More systematic information is available for the law and accounting partners in the major firms which have prospered by selling their services to giant firms and government. The business of auditing FTSE 100 firms is, for example, effectively monopolized by the big four accounting firms who also claim much of the audit business in the FTSE 250 (*Accountancy* September 2005). The growing use of limited liability partnerships in accounting (where all of the biggest firms have converted) and law (where the process has been slower) does increase disclosure of aggregate partner incomes because limited liability partnerships have to file moderately revealing accounts. Table 4 presents some basic information on the four largest accounting firms and four largest law firms, which together have 4,500 partners in the UK whose profit of £350-400k a year in 2004 can be considered as income (current or deferred). Not all partners are equal within such firms and according to the *Financial Times* (15 June 2005) the top earning partners in corporate law and securities earned more than £1 million in all of the big 5 law firms.

Table 4. The Big 4 accounting and law partnerships: scale and profitability, 2004

Firm and rank (by turnover within activity)	Turnover £000	Post-tax profit £000	Employees	Partners	Profit per partner £
1. PWC	1,568,000	391,000	12,767	813	480,935
2. Deloitte & Touche	1,246,300	374,100	8,547	598	625,585
3. KPMG	1,066,000	250,000	8,757	581	430,293
4. Ernst & Young	828,000	198,000	6,454	415	477,108
TOTAL				2,407	503,988
1. Clifford Chance	950,000	235,000		626	375,399
2. Freshfields	785,000	350,000	5,540	516	678,295
3. Linklaters	720,000	252,000	5,000	470	536,170
4. Allen & Overy	652,000	196,000	4,797	431	454,756
TOTAL				2,043	505,629

Source: Fame database; http://www.thelawyer.com/uk100#

The publicly available information on the intermediaries outside the giant firms is thus fragmentary but altogether good enough to establish that the intermediaries outside giant firms account for a much larger share of business related salaries than do the FTSE executive directors inside the giant firms. With 500 or so CEOs and executive directors against 7,500 law and accounting partners, the numerical ratio is 1:15 even without considering City high earners. The agency problematic effectively excludes such intermediary groups on the implicit assumption that executives inside the giant firm do a special and different kind of work which is much more directly connected to value creation. But the next part of the section argues that this implicit assumption about the difference of management from intermediary work is neither sustainable nor immediately relevant to understanding what is going on which is best understood as virtual work with positional reward.

But before we turn to consider these issues, the rewards of managers inside (and intermediaries outside) the giant firm need to be understood in the context of how shareholders are not doing the job that they should be doing as owners, according to the functionalist romance, but instead wait for positional gains. In the romance of agency, the function of the shareholders as owners is to monitor controlling managers and direct management efforts by appropriate pay contracts. But the empirical evidence from studies by Tosi *et al.* (2000) and many others suggest that there is no clear relation between management pay and performance that would provide giant firm managers with appropriate incentives. This is hardly surprising because the representation of shareholders as owners within the agency frame satisfies the political need to justify the shareholders' claims on profits but does not imply that institutional fund managers meet the practical test of ownership by exercising a proprietorial duty of care towards their property (Ireland 1999, 2000).

Table 5. UK and US giant firm performance between 1983 and 2002
(All financial values are based on 2003 prices)

	Sales	**Pre-tax profit**	**Market value**	**Directors' pay**
FTSE 100 constituents	2.7%	2.7%	18.2%	26.2%
S&P 500 constituents	2.5%	1.5%	13.3%	n/a
% *total* real change 1983 to 2002				
	Sales	**Pre-tax profit**	**Market value**	**Directors pay**
FTSE 100 constituents	53.4%	53.7%	365.7%	523.5%
S&P 500 constituents	49.8%	29.3%	265.2%	n/a

Sources: Datastream (UK data) and Compustat (US data)

From this point of view, the evidence shows that in the long run total shareholder returns consist mainly of positional gains and losses. As table 5 shows, shareholder returns in the form of distributed profits or dividends are fundamentally constrained because groups of giant firms like the FTSE 100 or the S&P 500 grow no faster than GDP in the long run. Thus more than half of total shareholder returns reflect tidal gains and losses in share price. In the bull market of the 1990s, price earnings ratios more or less doubled in both the USA and UK and, over the whole period 1983-2002, 75% of the annual return for S&P 500 constituents came from share price increases and only 25% from the earnings distributed as dividends; in the FTSE 100, the comparable figures are 63% and 37% (Froud *et al.* 2006, p.140). In this case, how is the US or UK shareholder of the 1990s different from the ground landlord or coal owner of the 1920s? In the earlier 1920s case, Tawney and inter war radicals argued that the value of the London rents or Rhondda royalties came from urban and industrial development which increased the value of the property rights without the owner doing anything at all. So it was with the 1990s rise in share prices, except that the increase in the price earnings ratio did not reflect a process of real economic development but instead reflects shifts in financial flows and variables. The rising price earnings ratios of the 1990s were underpinned by the wave of institutionalized middle class stock market saving (which accounted for up to 10% of GDP), plus a windfall increase in present values driven by falling interest rates as inflation is reduced. All this is reinforced by what Shiller (2000) terms 'irrational exuberance'.

If the story of shareholder reward is one about position, what about the highly paid business executives and intermediaries? Much of the work done by giant firm managers and business intermediaries is out of sight so that it is difficult to comprehend the purpose, form and consequences of their labour. Agency theorists have resolved all these difficulties by promoting a simple functional concept of the work of top management in giant firms: Jensen, for example, represents managers as 'decision makers' (Jensen 1983) who should create value for shareholders by selecting a portfolio of (profitable) projects, returning surplus cash and avoiding wasteful overhead like corporate jets (Jensen 1989, p.66). Against this, our argument is that there is no huge difference between the virtual work that executives and intermediaries do inside and outside the giant firm and that the basis of reward is positional in both executive and intermediary groups benefitting from their position close to large income and fee flows.

In sociological and anthropological accounts of management work by CEOs, the emphasis is on presentations not decisions. In a classic late 1960s study, Mintzberg (1973) argued that management work generally was characterized by 'brevity, variety and fragmentation' (p.31); this was especially so for CEOs, who seldom give more than 30 minutes to anything, lack specialist skills and mainly receive presentations and interpretations. This role exists at the top of most large bureaucratic organisations and it is unsurprising that Mintzberg found 'remarkable similarities' (p.258) between the work activities of public and private sector CEOs. More recently, Miller, an anthropologist, represents senior managers as engaged in a kind of virtual work insofar as they work with and through management consultants and fund managers who stand for, but are not, consumers and shareholders (2002, p.168, pp.175-6). In a study by Pye (2001) British CEOs were pitching to the City for more than one day a week and Froud *et al.* (2006) define the role of the CEO in a public company as one which involves managing the contradiction between capital market expectations and product market limits through working on narrative and numbers.

As for the intermediaries, their role needs to be understood in the broader economic and political context of the UK and USA, which combine neo-liberalism with responsibility and generate employment opportunities for the cadres of restructuring and compliance. Neo-liberalism forces marketisation and the quest for higher returns which requires large scale restructuring across the public and private sector, and in turn generates large amounts of work and fee income for investment bankers, lawyers and consultants. Restructuring takes many forms but its most visible manifestation over the past 20 years is merger and acquisition, which accounts for corporate expenditure of £1,200 billion in the UK from 1987-2003. This is equivalent to 77% of corporate investment in the UK over the same period; in the USA the comparable total is $14,929 billion from 1980-2003, equivalent to 65% of capital investment over the same period. (Froud *et al*. 2006, p.199). The process of restructuring goes hand in hand with much more compliance work as the neo liberal project is sold with safeguards built in via regulation of monopolistic privatized utilities and re-regulation of sensitive areas like financial services, plus a general expansion of corporate governance which, as in the case of Sarbanes Oxley generates significant additional work for accountants, lawyers and consultants.

The difference between working inside the giant firm as CEO or finance director and outside the giant firm as investment banker or consultant is much less than most would suppose from reading agency theorists or indeed from traditional elites study by authors like Scott (1997), whose Weberian focus on command and control power at the apex of the organisation leads to a similar preoccupation with CEOs and interlocking directors. There is a distinction between management inside and intermediation outside the giant firm. The star CEO fronts the presentation of a corporate narrative of purpose and achievement, performative initiatives and the financial numbers which corroborate the story. The cadres of compliance and restructuring have a directing influence as they frame what is possible and necessary in restructuring and compliance and mobilize funds to realize some of these options. But the essential difference between inside and outside work should not be overplayed because a cynic would see the CEO as just another intermediary with visible, executive responsibility for narrative and numbers. In this case, there is a question about why all the senior intermediaries inside and outside the giant firm receive such large rewards.

With executive pay, the key issue is how to explain the observed relation of pay to firm size. In the functionalist romance, the standard explanation is that managers inside large firms earn more because 'large, complex firms are more complicated to manage and require managers with relevant expertise' (Conyon 2005). But this functional argument does not explain why, as we have already noted, many senior managers earn moderate salaries in medium sized companies with several hundred millions of turnover and much complexity. In the alternative positional explanation, giant firm managers are 'close to a big till' and occupy positions where there are value skimming opportunities to take pennies in the pound on large flows of revenue and profit in giant companies. The size of the average S&P 500 company means that even generous US executive compensation packages account for only a small percentage of sales and profit: for example, in 2002, average pre-tax profit was just over $900 billion. Table 6 uses the USA as an illustration and shows that total executive compensation is no higher than 0.2 or 0.3% of sales, which translates into no more than 5% of pre-tax profits. This positional argument does then explain moderate salaries in medium sized firms where multi million deductions for the senior managers would be resisted by shareholders as they represented an unacceptable deduction from profits.

Table 6. The significance of executive compensation in S&P 500 companies in 2001-02, split into quintile groups by pre-tax income

Quintile (by pre-tax income)	Cash compens-ation as % of sales	Total compens-ation as % of sales	Cash compens-ation as % of pre-tax income	Total compens-ation as % of pre-tax income	Cash compens-ation as % of market value	Total compens-ation as % of market value
1	0.05	0.2	-0.4	-1.3	0.06	0.20
2	0.12	0.3	2.1	5.1	0.10	0.24
3	0.08	0.2	1.2	3.7	0.07	0.22
4	0.07	0.2	0.8	2.2	0.07	0.18
5	0.04	0.1	0.3	0.7	0.02	0.06
Total	*0.05*	*0.2*	*0.8*	*2.2*	*0.04*	*0.11*

Source: Execucomp.

Notes: The data relates to those 492 companies in the S&P500 for which usable data is available. Quintile 1 is the 20% of S&P500 firms with lowest pre-tax income; quintile 5 is the 20% with highest pre-tax income. Total cash compensation is the sum of salary, bonus and all other cash payments. Total compensation includes, salary, bonus, other annual payments, total value of restricted stock granted, net value of stock options exercised, long term incentive payouts etc. Execucomp collects data for the top 5 executives per company and thus, in some cases, may understate total executive director compensation.

With intermediaries, the issue is how can professional service firms, which are often much smaller than the S&P or FTSE giant firms, pay senior intermediaries such handsome salaries. The positional explanation is that, in the absence of shareholders, partnerships operate business models where the rates of value skimming can be much higher than in public firms. The business model of the typical intermediary partnership has three key elements which allow partners to claim 15-20% of revenue: first, revenue is boosted by charging out the mainly junior direct workers at an extravagant multiplicand on their direct wages; second, the junior and middle ranking staff are employed on an up-or-out basis which creates a steep pyramid; third, in the absence of other claimants, partners divide all the profit amongst themselves (see table 4). In many such service activities, the partnership level of reward then determines the going rate which public companies have to pay for staff like investment bankers. Thus financial services conglomerates like Citigroup J P Morgan Chase or Barclays in effect operate a kind of dual labour market where the large number of retail banking employees are paid according to public company practice and a small minority of investment bankers have to be paid according to City or Wall Street norms if they are to be retained.

Conclusion

This article has argued that agency theory constructs a romance of management pay which provides little insight into the source and function of business derived high incomes. Agency promotes an unhistorical, empirically restrictive and pre-cultural understanding of management work and high pay. More positively, the alternative positional analysis of value skimming by the cadres of restructuring inside and outside the giant firm is important because it opens up the ambiguous, partly invisible world of present day capitalism to new kinds of political discussion and intellectual inquiry. First, the alternative suggests a revisionist line of defence of the giant public firm and its role in wealth distribution (not creation). From an agency point of view, it is easy to presume that the giant firm is a failure because shareholders do not motivate managers to create value. Our positional argument suggests that the giant, stock market-quoted firm could be judged a qualified success because the presence of shareholders definitely inhibits high rates of value skimming by management and inhibits the grossly unequal internal distribution found in other kinds of organisation such as professional partnerships or hedge funds. Second, it indicates the need for a broader intellectual agenda for understanding business power and influence in present day capitalism. Agency assimilates an orthodox preoccupation with command and control power by executives at the apex of the organisation. Positional argument suggests it is as or more important to understand the activity of the cadres of compliance and restructuring, and it is sobering to realize that we know little about their recruitment, careers and networking, let alone their active role in an economy of continuous restructuring.

Acknowledgement

The authors are practically grateful for EU funding under the Framework 6 ESEMK programme and are intellectually indebted to John Williams who in early 2004 he drew our attention to the arguments about the rentier in Tawney's *Acquisitive Society.* We have used his knowledge of classic texts in our radical argument about pay.

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